MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2015/2016 SESSION

BAC1634 – FINANCIAL ACCOUNTING REPORTING 1

(All sections / Groups)

3 June 2016
3.00pm to 6.00pm
(3 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 6 pages with 5 Questions only.

2. Attempt **ALL FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Part A

State the reasons why there is a need for an accounting framework. (5 marks)

Part B

Berjaya Bhd sold a property with a carrying value of RM10 million to a property company for RM12 million on 1 September 2015 and recorded a profit of RM2 million on the disposal. One of the terms in the sales contract indicated that Berjaya Bhd will rent the property for a period of four years at an annual rental of RM250,000. At the end of this period, the property company will sell the property through a property agent at its fair value which is expected to be approximately RM15 million. However, Berjaya Bhd, will be given the opportunity to repurchase the property at its fair value before it is put on the open market. All these amounts are deemed to be at fair market price.

Required:
Explain and quantify where appropriate, how Berjaya should account for in its financial statement for the year ended 31 December 2015. (7 marks)

Part C

An extract from the statement of financial position of Maju Bhd as at 31 December 2015 is given below:

Equity	RM'000
100,000,000 Ordinary shares of RM1 each	100,000
Share premium	50,000
Retained profits	300,000
Non-Current Liability	
20,000,000 5% redeemable preference shares	22,000

Maju redeemed all the preference shares at a premium of 10 percent on 31 December 2015. It issued 5 million ordinary shares at RM2 per share to facilitate the redemption and the balance through profits available for dividends.

Required:
Show the journal entries to record the above transactions and prepare the statement of financial position after the completion of the transaction. (8 marks)

(Total : 20 Marks)

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QUESTION 2

The following trial balance has been extracted from the books of Kancil Bhd. as at 31 March 2015:

	RM'000	RM'000
Administration expenses	210	
Ordinary share capital, RM1 per share		600
Trade receivables	470	
Bank overdraft		80
Provision for warranty claims		205
Distribution costs	420	
Non-current asset investments	560	
Investment income		75
Interest paid	10	
Property, at cost	200	
Plant and equipment, at cost	550	
Plant & equipment, accumulated depreciation (at 31.3.2015)		220
Accumulated profits (at 31.3.2014)		80
Loans (repayable 31.12.2019)		100
Purchases	960	
Inventories (at 31.3.2014)	150	
Trade payables		260
Sales		2,010
2013/2014 final dividend paid	65	
2014/2015 interim dividend paid	35	
	3,630	3,630

The following information is relevant:

i. The trial balance figures include the following amounts for a disposal group that has been classified as 'held for sale' under MFRS 5 *Non-current Assets Held for Sale and Discontinued Opertations:*

	RM'000
Plant and equipment, at cost	150
Plant and equipment, accumulated depreciation	15
Trade receivables	70
Bank overdraft	10
Trade payables	60
Sales	370
Inventories (at 31.12.2014)	25
Purchases	200
Administration expenses	55
Distribution costs	60

The disposal group had no inventories at the date classified as 'held for sale'.

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ii. Inventories (excluding the disposal group) at 31.3.2015 were valued at RM160,000.
iii. The depreciation charges for the year have already been accrued.
iv. The income tax for the year ended 31.3.2015 is estimated to be RM74,000. This includes RM14,000 in relation to the disposal group.
v. The provision for warranty claims is to be increased by RM16,000. This is classified as administration expense.
vi. Staff bonuses totaling RM20,000 for administration and RM20,000 for distribution are to be accrued.
vii. The property was acquired during February 2015, therefore, depreciation for the year ended 31.3.2015 is immaterial. The directors have chosen to use the fair value model for such an asset. The fair value of the property at 31.3.2015 is RM280,000.

Required:
Prepare for Kancil Bhd. :

a. A Statement of Comprehensive Income for the year ended 31 March 2015. (8 marks)
b. A Statement of Financial Position as at 31 March 2015. (12 marks)

Both statements should comply as far as possible with relevant Malaysian Financial Reporting Standards. No notes to the financial statements are required nor is a statement of changes in equity but all workings should be clearly shown.

(Total : 20 Marks)

QUESTION 3

Part A

Gajah Bhd., a publicly quoted company, has 15,000,000 ordinary shares of RM0.40 each in issue throughout its financial year ended 31 December 2015. There are also:

- 1,000,000 8.5% convertible preference shares of RM1 each in issue classified as equity. Each preference share is convertible into 1.5 ordinary shares.
- RM2, 000,000 12.5% convertible loan notes. Each RM1 loan note is convertible into two ordinary shares.
- Options granted to the company's senior management giving them the right to subscribe for 600,000 ordinary shares at a cost of RM0.75 each.

The statement of comprehensive income of Gajah Bhd. for the year ended 31 December 2015 reports a net profit after tax of RM9,285,000 and preference dividends paid of RM85,000. Tax on profit is 30%. The average market price of Gajah Bhd's ordinary shares was RM0.84 for the year ended 31 December 2015.

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Required:
Calculate Gajah Bhd's basic and diluted earnings per share figures for the year ended 31 December 2015. (10 marks)

Part B

a. Ayu Bhd. is the main contractor engaged in the construction of a power plant of Bena Bhd. It has now been determined that there are construction defects to the power plant. The best estimate for the costs to rectify the defects is RM100 million. It had previously recognized a provision for warranty of RM40 million on the project as part of project costs. However, Ayu Bhd believes it can recover a significant part of the costs from the sub-contractors who performed some of the construction works. Negotiations with the sub-contractors are still in progress and based on the latest estimate, only two sub-contractors have admitted liability. The amount of recovery that is virtually certain is estimated at RM10 million.

Required:
Explain how Ayu Bhd. shall account for the above estimates of costs and reimbursements. (6 marks)

b. Explain the circumstances under which a provision should be recognized in the financial statements according to MFRS137 Provision, Contingent Liabilities and Contingent Assets. (4 marks)

(Total : 20 marks)

QUESTION 4

On 1 January 20x1, ABC Bhd completes the installation of its manufacturing plant. The total cost incurred, including land, is RM178 million, and this cost is allocated to the following components with their related useful lives:

	RM'm	Useful life
Freehold land	20	indefinite
Plant building structure	40	40 years
Building lifts and elevators	10	10 years
Building equipment and electrical system	5	5 years
Plant machines (including installation and commissioning costs).	80	10 years
Plant equipment	20	5 years
Major inspection cost	3	3 years
Cost of manufacturing plant	158	

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The manufacturing plant produces chemical products that are sold to overseas customers. As a condition for continuing to operate the plant, regular major inspection for faults are preformed every three years. The company uses the straight line method to compute depreciation. A nil residual value is assumed for the component parts of the plant. The replacement costs of the component parts increase by 20% when they are replaced.

Required:

a. Compute the carrying amount of the plant at the end of year 3, after a major inspection is performed at a cost of RM3.6 million. (6 marks)

b. Compute the carrying amount of the plant at the end of year 5, after the replacements of
   - building equipment and electrical system
   - plant equipment. (7 marks)

c. Suppose at the end of year 8, the lifts and elevators are replaced at a cost of RM12 million. Calculate the carrying amount of the plant and the loss on derecognition of the old lifts and elevators. Please take note that a second major inspection is performed at a cost of RM4.32 million. (7 marks)

(Total : 20 marks)

QUESTION 5

Harimau Sdn. Bhd. enters into a leasing agreement on 1 January 2015 for a machinery costing RM94,770. The lease agreement requires payment of five annual rents of RM25,000 each, payable in arrears at the end of the respective years. After the end of the primary lease period, the lessee has the right to purchase the asset at a bargain price of RM20,000. At the date of the lease agreement, Harimau is reasonably certain that it will exercise the right to purchase the machinery at the end of the lease term.

Harimau believe that the machinery will last for eight years and will have no residual value at the end of that period. It depreciates assets of this type on the straight line method. Harimau engages the lessor to service the machinery, paying a servicing fee of RM5,000 per year.

Harimau's incremental borrowing cost is 10% per annum and it's interest rate implicit is 14.6%.

Required:

a. Determine the amount that shall be recorded on initial recognition of the asset under finance lease. (2 marks)

b. Using the proper interest rate to allocate the total finance charge in the lease. (3 marks)

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c. Show the journal entries related to the lease transaction for the first year ended 31 December 2015. (8 marks)

d. Set out the charges in profit and loss account and the financial position disclosure for the first year ended 31 December 2015. (7 marks)

(Total : 20 marks)

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